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No. 98-496

In The

Supreme Court of the United States

October Term, 1998

P.C. FILMS CORP.,

Petitioner,

vs.

MGM/UA HOME VIDEO INC.,
MGM/UA COMMUNICATIONS CO.,
WARNER HOME VIDEO, INC. and
TURNER ENTERTAINMENT CO.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Second Circuit

RESPONDENTS' BRIEF IN OPPOSITION

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STATEMENT PURSUANT TO RULE 29.6

Pursuant to Rule 29.6, corporate respondents list the following as their parent companies and nonwholly owned subsidiaries:

(i) with respect to Turner Entertainment Co.: Time-Warner, Inc.;

(ii) with respect to Warner Home Video, Inc.: Time-Warner, Inc. and MediaOne Group, Inc.;

(iii) with respect to MGM/UA Home Video, Inc. and MGM/UA Communications Co.: Metro-Goldwyn Mayer, Inc.

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PRELIMINARY STATEMENT

Respondents Turner Entertainment Co. ("Turner"), Metro-Goldwyn-Mayer, Inc. (the "New MGM"),[1] MGM-UA Home Video, Inc. and Warner Home Video, Inc. (collectively referred to as "Respondents") hereby submit their brief in opposition to P.C. Films Corp.'s Petition For A Writ Of Certiorari dated September 22, 1998 (the "Petition").[2] The Petition seeks this Court's review of the Judgment of the United States Court of Appeals for the Second Circuit (the "Second Circuit") affirming the Judgment of the United States District Court for the Southern District of New York (the "District Court")[3] holding that Respondents' distribution rights in the film "King of Kings," as set forth in the subject financing and distribution agreement, was not coterminous with the film's initial 28 year copyright term, and accordingly denying Petitioner's request for declaratory relief.[4]

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1. New MGM was named in the caption as "MGM/UA Communications Co.," its name at the time.

2. The Petition was docketed with this Court on September 24, 1998.

3. Petitioner had appealed from the opinion and judgment of the District Court (per the Honorable Barbara S. Jones) dated January 30, 1997 and February 18, 1997, respectively. The District Court entered an additional judgment on March 18, 1997, dismissing all of the remaining claims and counterclaims, based on the prior opinion and judgment and the parties' stipulation.

4. The issue on appeal to the Second Circuit was whether Respondents' "perpetual" right to distribute the subject film in the licensed territories, as agreed to by the parties' predecessors in a 1960 contract, continues in effect, or whether such distribution right terminated and reverted to Petitioner at the end of the film's initial 28 year copyright term.

STATEMENT OF THE CASE

This case involves the interpretation of a motion picture production, financing and distribution agreement which was negotiated and entered into in 1960. Petitioner P.C. Films is the assignee of the rights of producer Samuel Bronston Productions, Inc. ("Bronston") in the motion picture "King of Kings" (the "Film"). Defendant Turner is the successor in interest to the rights of the original Metro-Goldwyn-Mayer ("MGM"),[5] which had contracted with Bronston for perpetual distribution rights to the Film in exchange for providing most of the financing for the Film's expensive production budget. The gravamen of Petitioner's claim is that Respondents' distribution rights under the 1960 contract, which were expressly stated as being "in perpetuity," were coterminous with the first copyright term in the Film, which ended on December 31, 1989. Petitioner's first claim for relief, which was adjudicated and rejected by the District Court on stipulated facts (which decision was affirmed by the Second Circuit), sought a declaratory judgment that Defendants' distribution rights in the Film terminated on that date. Plaintiff's remaining claims were dismissed based on this holding.

A. Background Facts

In 1960, MGM entered into negotiations with Bronston concerning the production, financing and distribution of a motion picture about the life of Jesus to be entitled "King of Kings" (the "Film"). The screenplay had been written by Philip Yordan as a "work-made-for-hire" for Bronston. Bronston was seeking financing for the Film, which would ultimately cost over $8 million to produce, in exchange for which it would license distribution rights in the Film.

5. Defendant New MGM, which was incorporated in 1981, is not related to MGM.

Benjamin Melniker ("Melniker"), Vice President and General Counsel of MGM, as well as one of its directors, took the lead in the negotiations on behalf of MGM. Samuel Bronston, assisted by numerous accomplished entertainment lawyers, was also personally involved. Caribe Curacao, N.V. ("Caribe") and Nazareth Production Company ("Nazareth"), the assignees of the various distribution rights in the Film, were also involved in the transaction.[6]

On or about August 4, 1960, the parties entered into an agreement (the "Basic Agreement") concerning the production, financing and distribution of the Film. (A copy of the relevant portions of the Basic Agreement is annexed to the Petition commencing at page 46a.) Pursuant to the terms of the Basic Agreement, MGM provided promissory notes in order to finance $5 million of the total production budget (which was then approximately $6 million, although it was later increased), in consideration of which it was agreed that MGM . . .

> . . . shall retain in perpetuity the exclusive right to distribute the said motion picture throughout the world except in Spain, Portugal, Germany, France, Belgium, Holland and Luxembourg . . .

In addition, MGM acquired an option for the exclusive right to distribute the Film in the Nazareth Territories, which had been excluded.

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6. Nazareth, which was a signatory to the agreement finally reached, held the distribution rights for Germany, France, Belgium, Holland and Luxembourg (the "Nazareth Territories"). Caribe, which was a party to other, related agreements concerning the Film, had been assigned all distribution rights in the Film except for Spain, Portugal and the Nazareth Territories, as security for certain loans which it had extended to Bronston.

On or about December 2, 1960, MGM exercised the option granted in paragraph 9 of the Basic Agreement to acquire the same distribution rights in the Nazareth Territories which it enjoyed in the other licensed territories. At this point, the parties had contracted, as between themselves, for MGM to have perpetual distribution rights in the Film for the entire world except Spain and Portugal. MGM, in turn, agreed to account and pay to Bronston 60% of net profits, as defined in the Basic Agreement, after recoupment.[7]

The Film was first exhibited on or about October 30, 1961. As a result of proceedings in bankruptcy several years later, Bronston assigned its copyright interest in "King of Kings" to P.C. Films Corp., the Petitioner herein.

As a result of a series of assignments, mergers and acquisitions,[8] Turner now owns the distribution rights in the Film which were first acquired by MGM in 1960 pursuant to the Basic Agreement.

Turner is continuing to exercise distribution rights in the Film as the successor to MGM under the Basic Agreement. Warner Home Video, another named defendant in this action, is distributing the Film in home video pursuant to licenses

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7. The complex calculation and distribution of "net profits" is set forth at paragraph 8 of the Basic Agreement.

8. On February 29, 1980, MGM assigned its filmed entertainment business to Metro-Goldwyn-Mayer Film Co. ("MGM Filmco"). MGM Filmco changed its name to MGM/UA Entertainment Company. In March of 1986, TBS Acquisition Corp. was merged into MGM/UA Entertainment Co. The name of the newly-created entity was MGM Entertainment Co. In August of that same year, MGM Entertainment Co. was merged into TBS Entertainment Co. A few days later, TBS Entertainment Co. changed its name to Turner Entertainment Co.

emanating from or through the New MGM (including its affiliates and subsidiaries) and Turner Entertainment Co.

B. The Litigation

In 1990 P.C. Films, as assignee of Bronston's interest in the Film, advised Respondents of its claim that the "perpetual" distribution right for which MGM had contracted in the Basic Agreement was intended to, and under New York law did, terminate on December 31, 1989, at the conclusion of the first 28 year copyright term in the Film.[9]

P.C. Films commenced this action on March 7, 1991. The complaint set forth six claims for relief. The first claim, which was the subject of the trial on stipulated facts in the District Court, was for a declaratory judgment that the distribution license granted in the Basic Agreement terminated on December 31, 1989, and that Respondents have no further distribution rights or other rights with respect to the Film. The remaining claims were for copyright infringement, for unfair trade practices and unfair competition, for replevin of the elements of the Film, for replevin of all videocassette materials for the Film, and for an accounting.

During discovery, the parties took Melniker's deposition. Melniker is the only known remaining witness who has personal

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9. The copyright in the Film was renewed pursuant to filings made by both Turner and P.C. Films in 1989. Turner does not claim, however, to be the copyright proprietor of the Film, and it filed its renewal application naming Bronston as a co-claimant, as MGM had done when it filed for the original copyright registration in 1962. Melniker testified that MGM's name was added, by agreement with Bronston, to enable it to register and hold the copyright in trust for Bronston. This practice was standard MGM policy and facilitated the process of depositing copies with the Copyright Office. Turner similarly registered the renewal copyright in trust for P.C. Films in the names of P.C. Films and Bronston. No assertion of copyright ownership is made by MGM or Turner.

knowledge regarding the negotiation and execution of the Basic Agreement.[10] Melniker testified that it was MGM's general policy to get "perpetual" distribution rights, and that the company would not have invested $5 million in a film being produced by another entity, as it did with "King of Kings," for less than a perpetual term. When asked whether any of the other parties ever express a desire or intention that MGM's term of distribution be for a shorter period, Melniker responded "[a]bsolutely not. We never would have continued the negotiation if that happened." (Page 63a.)

Melniker testified that the duration of the "perpetual" distribution right was intended to be "forever," and was not limited to any specific term of years. Melniker also testified that the original parties to the Basic Agreement never intended the duration of MGM's distribution rights to be measured in terms of the copyright in the Film. (Page 64a.)

Petitioner's declaratory judgment claim was tried on stipulated facts and exhibits, including Melniker's deposition transcript. There was no testimony offered to contradict Melniker and it was agreed that his credibility was not at issue.

THE DECISIONS BELOW

A. The District Court Decision

Petitioner made two basic arguments in support of its claim that the perpetual distribution term contracted for in the Basic Agreement terminated at the end of the Film's initial 28 year copyright term. First, Petitioner argued that this was the parties' intent, and that had the parties intended for the distribution term to include the renewal copyright period, they would have

10. A copy of the relevant portions of Mr. Melniker's testimony are annexed to the Petition commencing at page 61a.

specifically referred to the renewal term or set forth a specified term of years. Second, Petitioner argued that construing the Basic Agreement's "perpetual" distribution term as extending beyond the initial 28 year copyright period would violate those sections of the United States Constitution and the Copyright Act of 1909 (the "1909 Act") which provide that copyright protection must be of limited duration.[11]

The District Court rejected both of these assertions, finding that "plaintiff's argument misconstrues both the nature of licenses related to copyrights, and judicial treatment of such contractual arrangements." *P.C. Films Corp. v. Turner Entertainment Co.*, 954 F. Supp. 711, 713 (S.D.N.Y. 1997). Noting that "courts routinely recognize the right to enter into perpetual licenses incident to copyrighted material" without any concern that constitutional limitations prohibit such grants (954 F. Supp. at 714), and that Petitioner had cited no case holding that such a grant must be limited to the initial copyright term (*Id.* at 713), the court held that

> the private agreement between two parties — which does not affect the movement of the Picture into the public domain once the initial and renewal terms have expired — does not "alter rights granted by the copyright statutes as to invade the scope of copyright law or violate its policies" (*Id.*).

Thus, having found that the "perpetual" right to distribute the Film was a matter of a private contract affecting only the contracting parties' rights and obligations as between themselves, the court held that:

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11. It is this argument on which Petitioner primarily based its appeal to the Second Circuit and currently its Petition to this Court; Petitioner's argument regarding the parties' intent has become secondary.

> [G]iving effect to perpetual license rights — beyond the initial copyright term — does no harm to copyright principles that seek to protect the public's interest in copyrighted material after the statutorily granted monopoly period (*Id.*)

The District Court also rejected Petitioner's argument that the parties to the 1960 Basic Agreement had intended for MGM's distribution right to be coterminous with the initial copyright term, noting that inclusion of the "precise phrase 'renewal term' " is not required, and finding that the use of the term "perpetual" to describe the duration of MGM's distribution right was "unambiguous and convey[s] a plain, ordinary meaning. Perpetual means forever" (*Id.* at 715-16). Accordingly, the Court found that "the parties to the Basic Agreement intended for the instrument to convey perpetual distribution rights, *i.e.* rights that last forever" (*Id.* at 716). Furthermore, the Court found that even if some ambiguity could be found in this term, that Melniker's unchallenged testimony "lays the issue to rest" and establishes that the parties never intended for MGM's distribution right to be coterminous with the initial copyright period (*Id.*).

Finally, the District Court concluded that a consideration of the equities would lead to the same result, since a contrary finding would "work an injustice not only to the parties, but more generally to those contracting in the film distribution and financing industry" who rely on standard industry usage of "perpetual" grants to describe the distribution rights for which, like MGM, they are paying substantial sums (*Id.* at 716).

B. The Second Circuit Decision

In affirming the District Court's decision, the Second Circuit noted that the Supreme Court "has consistently allowed

authors to assign their rights in the renewal term before that term commences." 138 F.3d 453, 457 (2d Cir. 1998). The Court rejected the Petitioner's argument regarding the general presumption against the conveyance of renewal rights, noting that under its holding in *Siegel v. National Periodical Pubs, Inc.*, 508 F.2d 909 (2d Cir. 1974), this presumption may be rebutted where the author includes "language which expressly grants rights in 'renewals of copyright' or 'extension of copyright.' " 138 F.3d at 457. Since the Basic Agreement granted MGM the "perpetual and exclusive right to distribute" the Film, and since " 'perpetual' was sufficiently synonymous with 'forever,' "[12] (*id.*), the Court held that MGM's "perpetual" grant of distribution rights encompassed the renewal term.

The Court added that even if *Siegel* had *not* been controlling,

> the conclusion that the parties in this case intended to convey rights in the renewal term is supported by extrinsic evidence, namely the testimony of the sole surviving participant in the negotiations, MGM's Vice President and General Counsel, Benjamin Melniker.

138 F.3d at 457.[13]

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12. The Court quoted one of the definitions of "forever" from *Webster's Third New International Dictionary* (1981), *i.e.* "continuing forever." 138 F.3d at 457.

13. The Court also cited the maxim of contract interpretation that when a contract "may be performed lawfully, as well as in violation of the law, it is valid, . . . [and the] construction of a contract should be, when it is possible, in favor of its legality . . ." 138 F.3d at 458, citing *Shedlinsky v. Budweiser Brewing Co.*, 163 N.Y. 437, 439, 57 N.E. 620, 620 (1900). The Court explained that "the Basic Agreement can be lawfully interpreted to continue through the renewal period, thereby giving effect to the intention of the parties to the greatest extent possible consistent with the law." *Id.*

The Second Circuit declined to decide the question raised by petitioner of whether a perpetual license of copyright rights is contrary to federal copyright law and policy as it was unnecessary for the Court to reach this question. The Court had already determined that the Respondent's license extended through the renewal term, *i.e.* through the year 2036, based on the clear language of the Basic Agreement and the intent of the parties.[14] Significantly, the Court held that it would therefore be

> premature and therefore inappropriate at this time to decide whether a contract purporting to grant a perpetual license of copyright rights, that is, rights that endure beyond the renewal period, is contrary to federal copyright law and policy. We need not resolve that issue because the renewal term for the film "King of Kings" does not expire until after 2036. We have held that the Basic Agreement's grant of distribution rights "in perpetuity" grants rights through the renewal period. Thereafter, the work will go into the public domain. We decline to decide whether the Basic Agreement imposes restrictions on P.C. Films beyond the renewal period. 138 F.3d at 458.

The Second Circuit also rejected the Petitioner's extraordinary request, which request is reiterated in this Petition, that the term "perpetual" somehow be "removed" from the Basic Agreement, that Melniker's unrebutted testimony also be disregarded, that the contract be treated as one which had been silent as to duration, and that the Court invoke the rule that contracts silent as to duration of the grant of copyright rights convey rights for the initial copyright period only.

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14. The Court stated that, even if it were to assume *arguendo* that the grant was "void," it would not adopt Petitioner's analysis as this "would require the Court to ignore the manifestation of the parties' intention on the issue of duration." 138 F.3d at 458.

REASONS FOR DENYING THE WRIT

I.

THIS COURT NEED NOT ADDRESS THE CONSTITUTIONAL ISSUES RAISED PREMATURELY BY PETITIONER

The District Court and the Second Circuit both determined that, based on the plain language of the Basic Agreement and the manifest intent of the parties, the Respondents were granted an exclusive "perpetual" license to distribute the film "King of Kings," and that this was both intended to and did encompass (at least) the renewal copyright term. Thus, under both decisions, the Basic Agreement *lawfully* extends through the renewal term, *i.e.* through at least the year 2036.[15] As noted above, the Second Circuit specifically declined to address as "premature" Petitioner's asserted constitutional "conflict" concerning the post-renewal term validity of the "perpetual" license. That Court's position is entirely consistent with this Court's long-established doctrines concerning the adjudication of constitutional issues and presents a compelling reason for denying the present Petition.

In *Ashwander v. Tennessee Valley Authority*, 297 U.S. 288, 56 S. Ct. 466 (1936), the Supreme Court discussed the rules it had developed "under which it has avoided passing upon a large part of all the constitutional questions pressed upon it for

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15. The District Court held that Respondents' rights through the renewal term (and indeed beyond) did not "alter rights granted by the copyright statutes so as to invade the scope of copyright law or violate its policies." 954 F. Supp. at 713, 715. The Second Circuit also held that the Basic Agreement "can be lawfully interpreted to continue through the renewal period," *i.e.* without violating any federal copyright law or policy. 138 F.3d at 458.

decision." 297 U.S. at 346, 56 S. Ct. at 482. The second of those rules is applicable here:

> 2. The Court will not "anticipate a question of constitutional law in advance of the necessity of deciding it."

297 U.S. at 346, 56 S. Ct. at 483, citing *Liverpool, N.Y. & Phila. Steamship Co. v. Emigration Commissioners*, 113 U.S. 33, 39, 5 S. Ct. 352, 355, 28 L. Ed. 899; *Abrams v. Van Schaick*, 293 U.S. 188, 55 S. Ct. 135, 79 L. Ed. 278; *Wilshire Oil Co. v. United States*, 295 U.S. 100, 55 S. Ct. 673, 79 L. Ed. 1329. "It is not the habit of the court to decide questions of a constitutional nature unless absolutely necessary to a decision of the case." *Id.*, citing *Burton v. United States*, 196 U.S. 283, 295, 25 S. Ct. 243, 245, 39 L. Ed. 482.

Petitioner urges the Court to grant discretionary review and devote precious resources to the issue of whether the "perpetual" license to distribute the Film will be unconstitutional after the expiration of the Film's copyright protection. However, the question of whether or not the grant will violate federal copyright law once the film passes into the public domain need not be decided until the expiration of the renewal term, *i.e.* until 2036 (or possibly later).[16] As the Second Circuit stated, it is

> premature and therefore inappropriate at this time to decide whether a contract purporting to grant a perpetual license of copyright rights, that is, rights that endure beyond the renewal period, is contrary to federal copyright law and policy. We need not

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16. On October 7, 1998, Congress passed legislation which would extend most copyright terms for an additional 20 years. *See* "Copyright Term Extension Act of 1997," H.R. 604. Foreign copyright terms may also have longer duration.

> resolve that issue because the renewal term for the film "King of Kings" does not expire until after 2036.

138 F.3d at 458.

Here, too, it would be premature and inappropriate for this Court to determine whether a distribution license which two courts and four jurists have already held to be valid through at least the Film's renewal term will violate the copyright principles under the Constitution once the Film passes into the public domain. Respondents maintain that it will not, as did the District Court; however, under *Ashwander*, the Court should not and need not "anticipate a question of constitutional law in advance of the necessity of deciding it" in any event.

II.

MGM'S DISTRIBUTION RIGHT IS A PERMISSIBLE, PERPETUAL CONTRACT BETWEEN THE PARTIES WHICH CONSISTS OF MORE THAN A "COPYRIGHT LICENSE"

A. Petitioner's Arguments Are Premised Upon A Mischaracterization of the Basic Agreement

Petitioner's primary argument on this appeal — that the "perpetual" and "exclusive" grant of distribution rights to MGM was unconstitutional — is based on a tortured and selective reading of the Basic Agreement. Petitioner's assertion that the Basic Agreement created a void and unlawful "perpetual copyright monopoly," by granting "in perpetuity" rights under copyright law which are required to be of limited duration, is premised on a fundamental mischaracterization of MGM's distribution right as a mere "copyright license." MGM's distribution right *expressly* consisted of *more* than copyright

rights and, as the District Court recognized, this "exclusive" and "perpetual" grant was an entirely permissible contract between private parties. Respondents have never claimed, and the District Court and Second Circuit did not hold, that the Basic Agreement gave MGM copyright rights in perpetuity. The constitutional conflict upon which Petitioner bases its appeal simply does not exist. Moreover, Petitioner's argument that the parties did not intend to convey rights extending beyond the Film's initial 28 year copyright term is controverted by the unambiguous language of the Basic Agreement and Melniker's unchallenged testimony regarding the parties' intent.

B. The Basic Agreement Is Not Preempted By Federal Copyright Law

Petitioner argues that that federal copyright law somehow preempts the Basic Agreement, again based on Petitioner's now familiar refrain that the Basic Agreement granted Respondents a perpetual copyright "monopoly." It is *only* by mischaracterizing the Basic Agreement that Petitioner can even make its preemption argument. Of course, as detailed above, no such monopoly was intended or expressed by the parties, or upheld by either of the courts below. Neither the Respondents, the District Court nor the Second Circuit has stated that the Basic Agreement conveyed any rights or protection afforded under copyright beyond the statutorily defined period. There is simply no conflict between the Basic Agreement and federal law.[17]

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17. Indeed, were this Court to accept Petitioner's meritless position, countless agreements involving perpetual rights would be called into question and normal commercial transactions in the motion picture distribution and finance industry (not to mention other industries involving copyrighted works and perpetual rights) would be undercut (954 F. Supp. at 716-17).

The case authority cited by Petitioner for this position is irrelevant to the extent that no conflict exists here between the Basic Agreement and federal copyright law, and is entirely distinguishable in any event. First, while *Goldstein v. California*, 412 U.S. 546, 93 S. Ct. 2303 (1973), *reh'g denied*, 414 U.S. 993, 94 S. Ct. 27 (1973), unquestionably stands for the proposition (later superseded by the preemption section of the Copyright Act of 1976, 17 U.S.C. § 301(a)) that the states retain concurrent jurisdiction to enact legislation consistent with federal copyright law, it also actually *upheld* the validity of a California statute that provided protection similar to copyright *of unlimited duration*. Although the petitioners in *Goldstein* argued, *inter alia*, that the lack of durational limitation in the California statute was in conflict with the constitutional proscription against unlimited copyrights, the Court rejected this argument. As Chief Justice Burger observed:

> When Congress grants an exclusive right or monopoly, its effects are pervasive; no citizen or State may escape its reach. *As we have noted, however, the exclusive right granted by a State is confined to its borders. Consequently, even when the right is unlimited in duration, any tendency to inhibit further progress in science or the arts is narrowly circumscribed. The challenged statute cannot be voided for lack of a durational limitation.* (emphasis supplied)

Id. at 560-1. Although *Goldstein* was later superseded by Section 301 of the 1976 Act, it is interesting to note that the Court found no conflict between a state statute of unlimited duration and federal copyright law or policy.

C. There Is No Conflict Among The Circuits

The other cases cited by Petitioner involve entirely distinguishable facts, and do not reflect a "conflict" among the circuits in any event.

The license agreement at issue in *Rano v. Sipa Press, Inc.*, 987 F.2d 580 (9th Cir. 1993), for example, was governed by the 1976 Act and contained *no* durational limitation, unlike the Basic Agreement, which is governed by the 1909 Act and does contain durational provisions. *Id.* at 585. Similarly, in *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989), which concerned a license agreement under the 1976 Act, the Ninth Circuit simply held that the district court had erred by applying the California rule that a contract should be interpreted against the drafter, rather than the federal copyright policy which assumes that licenses prohibit any use not authorized. *Id.* at 1088.

In this case, of course, the courts below applied no state law in contravention of federal copyright policy, but rather simply held that the Basic Agreement legitimately conveyed rights including but not limited to those arising under copyright.

Petitioner's analysis of *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), entirely misses the mark. Moreover, the holding in *ProCD* actually supports the holdings of the courts below in this case. In *ProCD*, the defendant purchased a software package containing a shrinkwrap license setting forth authorized uses of the information. The defendant downloaded the information, which contained data compiled from hundreds of telephone directories, and made it available on the Internet at a much lower cost, in violation of the terms of the license that had been included with the ProCD software.

The *ProCD* defendant argued, *inter alia*, that the license was unenforceable since the information contained in the software he had purchased was not copyrightable,[18] and that restrictions on its use therefore violated provisions of the Copyright Act. The Seventh Circuit rejected this argument, holding that enforcement of the license did not create rights equivalent to exclusive rights within the general scope of copyright and was thus not preempted by the Copyright Act.[19]

Petitioner's contention that these contractual restrictions "evaded and contractually overruled this Court's holding in *Feist Publications*" is simply incorrect. The *ProCD* Court did not hold that the compilation of telephone directory data *was* entitled to some sort of copyright protection in contravention of the ruling in *Feist*, as Petitioner seems to suggest; rather, the basis for its holding was that, as between the two parties, a private agreement regarding the use of the information was enforceable.

In *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990), the Court held that anti-competitive language contained in a software developer's licensing agreement constituted an attempt on the part of the developer to unfairly

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18. Under *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 111 S. Ct. 1282 (1991), in which this Court held that a telephone book was not sufficiently original to warrant copyright protection.

19. The Court noted that, "[a]lthough Congress possesses power to preempt even the enforcement of contracts about intellectual property . . . courts usually read preemption clauses to leave private contracts unaffected." 86 F.2d at 1454, citing *American Airlines, Inc. v. Wolens*, 513 U.S. 219, 115 S. Ct. 817, 130 L. Ed. 2d 715 (1995). As for the license, the Court observed that "§ 301(a) does not itself interfere with private transactions in intellectual property," and "does not prevent states from respecting those transactions." *Id.* at 1455.

restrict all competition in the area of steel rule die manufacturing. The "egregious" language at issue did much more than restrict the licensee's use of the information licensed; it actually forbade the licensee from developing or assisting in developing any kind of computer-assisted die-making software for the term of the license, *i.e.* 99 years, plus 1 year.

The Ninth Circuit held that the copyright holder could not use its copyright for this purpose, stating that, even if the language did not rise to the level of an actual antitrust violation, it was certainly an abuse of the developer's copyright, and therefore allowed the defendants to assert a defense of "misuse of copyright." Of course, there is no parallel to be drawn between *Lasercomb* and the case at bar. Respondents are engaging in no anti-competitive or other "egregious" behavior; they are merely enforcing the specific rights granted them by Petitioner in the Basic Agreement.

Finally, Petitioner cites the case of *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255 (5th Cir. 1988), in which the Fifth Circuit held that the license agreement there at issue (also governed by the 1976 Act), which incorporated Louisiana's License Act, was in conflict with, and was therefore preempted by, § 117 of the 1976 Act, in that the Louisiana act permitted a software producer to prohibit a licensee from adapting its software through the process of decompilation or disassembly in contravention of § 117.

The facts in the cases cited by Petitioner are distinguishable from those at issue here. To the extent Petitioner claims there is a conflict among the circuits based upon the holdings discussed above, Respondents submit that no such conflict exists, and that the above decisions are factually distinguishable and utterly reconcilable.

More importantly, however, Respondents in this case have not argued — and the District Court and Second Circuit did not sanction — any interpretation of the Basic Agreement that is in conflict with federal copyright law or policy in any event. Petitioner is simply incorrect when it states that there exists a conflict between federal copyright law and the exclusive and perpetual right to distribute under state or common law. Rather, as the District Court correctly held, the Basic Agreement " . . . does not 'alter rights granted by the copyright statutes as to invade the scope of copyright law or violate its policies'" (954 F. Supp. at 713). Accordingly, Petitioner's "preemption" argument must be rejected.

D. The Basic Agreement Did Not Terminate At The Expiration Of The Initial Term Of Copyright

Even if one were to accept Petitioner's mistaken premise that the Basic Agreement purported to grant copyright rights of unlimited duration, it does not follow that the Basic Agreement would have terminated at the expiration of the *initial* term of copyright (as opposed to the expiration of the renewal term). Petitioner's attempt to fill this logical gap is utterly bereft of merit.

Petitioner argues that all references to Respondents' "perpetual" rights should be removed from the Basic Agreement and it should be treated as having no express period of duration. Under copyright law, Petitioner then argues, unless a licensee can show evidence of a contrary intent, a copyright license without an express duration is only effective for the "then existing copyright term" of the work.

Once again, the general proposition cited by Petitioner is correct, but misdirected. In the *absence* of any durational provision or other evidence of the parties' intent, a contractual

grant of rights under copyright would, indeed, be coterminous with the then existing term of protection. *See, e.g., Corcovado v. Hollis*, 981 F.2d 679, 684-85 (2d Cir. 1993); *April Productions, Inc. v. G. Schirmer, Inc.*, 308 N.Y. 366 (N.Y. Ct. App. 1955).

Here, however, even if the Court were to accept Petitioner's misguided assertion that the reference to a "perpetual" term should be ignored and the Basic Agreement "treated as having no express period of duration," the Court would still have ample evidence of the parties' intent to convey rights including rights during the renewal term.[20] First, whether or not the term "perpetual" is *enforceable*, the fact remains that the parties, after months of extensive negotiation, inserted the term into the Basic Agreement as an expression of their *intent*. Further, the unrebutted testimony of Melniker resolves any doubt and reaffirms that the parties intended to convey perpetual rights. Finally, other provisions in the Basic Agreement confirm that the parties intended to convey perpetual rights, including MGM's right to perpetually and exclusively access and use the Film elements.

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20. Respondents respectfully submit, as argued herein, that the proponent of a contract interpretation which reads out of the contract a term of obvious importance to at least one of the parties faces a "distinctly uphill struggle for judicial acceptance." *In re Kazmierczak*, 24 F.3d 1020, 1022 (7th Cir. 1994). *See Chemical Bank v. Affiliated FM Ins. Co.*, 815 F. Supp. 115, 119 (S.D.N.Y. 1993) ("Courts do not favor interpretations of contracts which render some of their language nugatory"). Petitioner has categorically failed to meet its burden since its argument is based on the demonstrably incorrect premise that the Basic Agreement is nothing more than a mere "copyright license." Accordingly, the words "perpetual" and "in perpetuity" should remain in the Basic Agreement and be interpreted based on their plain and unambiguous meaning — that the parties to the Basic Agreement intended to provide for distribution rights in the Film that lasted forever.

As the court aptly held in *Warner-Lambert Pharmaceutical Company, Inc. v. John J. Reynolds, Inc.*, 178 F. Supp. 655, 661 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960), "[i]f the parties intend that the obligation be perpetual they must expressly say so." *See Corcovado v. Hollis*, 981 F.2d at 684-85 (parties to a contract can convey and embrace renewal rights by using words like "forever" and "hereafter") (citing *Siegel v. National Periodical Publications, Inc.*, 364 F. Supp. 1032 (S.D.N.Y. 1973), *aff'd*, 508 F.2d 909 (2d Cir. 1974)). Here, the parties intended the distribution rights to be perpetual, and they did in fact say so. Accordingly, this Court should reject, as did the District Court and the Second Circuit, Petitioner's meritless argument that the Basic Agreement should terminate at the end of the initial term of copyright protection.

Petitioner also contends that the Second Circuit did not place sufficient importance on the fact that P.C. Films renewed the copyright in the Film. This is simply not the case. Both Turner (MGM's successor) and P.C. Films (Bronston's successor) filed renewal applications, with Turner doing so as a "co-claimant" with Bronston, as MGM had done with the initial copyright registration.[21] Petitioner claims that Turner was not an actual copyright proprietor,[22] and that if P.C. Films had not filed its renewal application, MGM would have lost its rights. Petitioner argues that MGM could therefore not have expected to have rights into the renewal term, as those rights

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21. According to Melniker, MGM's name was added to the initial registration to enable it to register and hold the copyright in trust for Bronston. This was done pursuant to the parties' agreement so that Bronston could take advantage of an arrangement MGM had with the Copyright Office which facilitated the process of depositing copies with that office.

22. This is not disputed by Respondents, who claim no copyright ownership in the Film.

were dependent upon the actions of P.C. Films in renewing. As the Second Circuit correctly explained, however,

> it was the realistic commercial expectation of the parties that Bronston would seek to renew the copyright in the Film, otherwise Bronston would lost any federal copyright protection for any of the rights it retained by virtue of the Film falling into the public domain.

138 F.3d at 457-58.

III.

THE DISTRIBUTION RIGHTS CONVEYED BY THE BASIC AGREEMENT DO NOT ALTER RIGHTS GRANTED BY COPYRIGHT STATUTES SO AS TO INVADE THE SCOPE OF COPYRIGHT LAW OR VIOLATE ITS POLICIES

Petitioner has consistently argued that the grants contained in the Basic Agreement somehow violate public policy in that they amount to a "perpetual copyright monopoly" and, thus, will somehow prevent the public from enjoying certain rights when the Film enters the public domain. Conspicuously absent from Petitioner's arguments is any explanation as to how an agreement between two private entities will impose any kind of impermissible restriction on the *public's* rights once the Film enters the public domain.[23] The public will have free access to the Film when that occurs, even though, as between the two parties, Respondents will still have the exclusive and perpetual right to the "benefit and enjoyment for all purposes of all

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23. As noted by the District Court, a "private agreement between two parties — which does not affect the movement of the Picture into the public domain" does not "invade the scope of copyright law or violate its policies" (954 F. Supp. at 713, 715).

negative, positive and other materials related to the Picture" (Basic Agreement, ¶11, pg. 49a),[24] and the corresponding obligation to continue to account to Petitioner.

The "exclusive" and "perpetual" distribution right provided for in the Basic Agreement is entirely permissible when it is construed as Respondents submit it was intended to be: as being "exclusive" and "perpetual" *as between the parties*, rather than as against the public at large. Petitioner contests the validity of the distribution grant by asserting the opposite, *i.e.*, that it unlawfully attempts to provide a perpetual and exclusive copyright "monopoly" as against the world. Petitioner's argument is amply rebutted, however, by basic legal principles regarding contractual interpretation.

First, it is well settled, and the Second Circuit here agreed, that if a party to a contract contests its validity, that party bears the burden of proving that the contract is invalid. *See, e.g., Weil v. Neary*, 22 F.2d 893, 895 (2d Cir. 1927) ("burden of establishing an agreement to be illegal or against public policy rests upon the person asserting it"), *rev'd on other grounds*, 278 U.S. 160, 49 S. Ct. 144 (1929). As the New York Court of Appeals has long held:

> It is a generally accepted rule that when a contract is to do a thing which cannot be performed without the violation of the law it is void; *but when it may be performed lawfully, as well as in violation of the law, it is valid, in the absence, at least, of proof that the intention of both parties was that the law should be violated.* The construction of a contract should be, when it is possible, in favor of its legality . . . *The presumption of a lawful intention must*

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24. This will enable Respondents to continue making first generation theatrical prints of the Film.

> *always prevail, and the burden of overthrowing it is not met by him who asserts it by proof which is quite consistent with a perfectly lawful purpose*, however demonstrating that, if effectuated in a certain way, it would contravene the law. (Internal citations omitted and emphasis supplied.)

Shedlinsky v. Budweiser Brewing Co., 163 N.Y. 437, 439 (1900); *In re Castle Braid Co.*, 145 F. 224, 231 (S.D.N.Y. 1906); *Western Union Tel. Co. v. American Communications Ass'n, C.I.O.*, 299 N.Y. 177, 188 (1949); *Hendler & Murray v. Lambert*, 147 A.D. 2d 444, 537 N.Y.S. 2d 560, 563 (2nd Dept.), *app. denied*, 74 N.Y. 2d 603, 543 N.Y.S. 2d 396 (1989); *Mulligan v. Fioravera*, 228 A.D. 270, 239 N.Y.S. 438, 441 (1st Dept.), *aff'd*, 255 N.Y. 539 (1930); *Mendelsohn v. A & D Catering Corp.*, 119 Misc. 2d 581, 464 N.Y.S. 2d 331, 334 (Sup. Ct. Kings Cty. 1983), *aff'd*, 100 A.D. 2d 209, 437 N.Y.S. 2d 481 (2nd Dept. 1984); *Terrace Sav. & Loan Ass'n v. Martin*, 236 N.Y.S. 2d 674, 677 (Sup. Ct. Kings Cty. 1963).

Respondents' rights under the Basic Agreement can be performed lawfully, *i.e.* without violating constitutional principles or federal copyright policy. Simply distributing the Film in 2037 (after the Film enters the public domain) does no violence to public policy, and Respondents have never argued and, indeed, could not argue, that under the Basic Agreement Respondents have the right, or even the ability, to prevent any third party from exercising copyright rights relating to the Film.[25] Moreover, Petitioner has

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25. Indeed, Respondents have all along acknowledged that Turner would not have "exclusive" distribution rights as against third parties after the termination of all copyright protection. That is precisely why MGM's exclusive and perpetual right of access to the original film elements was of value to them. As noted above, even after copyright protection expires, anyone will be able to copy and distribute the Film, (Cont'd)

completely failed to prove, in accordance with *Shedlinsky* and the other cases cited above, that both parties intended when they entered into the Basic Agreement that copyright policy would be violated at some point. Accordingly, Petitioner has failed to meet its burden of proving that the Basic Agreement is void as against public policy.

Petitioner has articulated no clear and substantial injury to the public flowing from the rights granted under the Basic Agreement. Petitioner merely states, without explanation or justification, that public policy will be violated by the grant of distribution rights at issue. As noted above, Petitioner's only tactic is to set up the straw man of a "perpetual copyright monopoly" and argue that perpetual copyright grants are unconstitutional and contrary to public policy. Merely arguing that there is a potential, hypothetical conflict between the Basic Agreement and copyright policy is insufficient to warrant a finding that the Basic Agreement is void.

(Cont'd)

but *only* MGM was to have the ability to make first generation theatrical prints by virtue of the continued exclusive access to the original film elements, as provided in the Basic Agreement (¶11, p. 49a). This substantial advantage over third parties was clearly based on a contractual right which would *not* terminate with copyright protection.

CONCLUSION

For all of the foregoing reasons, Respondents submit that Petitioner's request for a grant of a Writ of Certiorari should be denied in its entirety.

Respectfully submitted,

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